

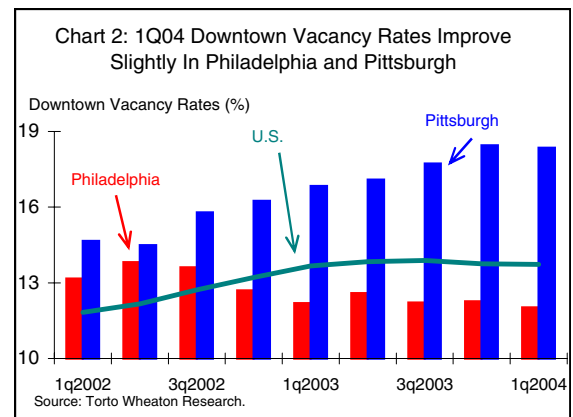
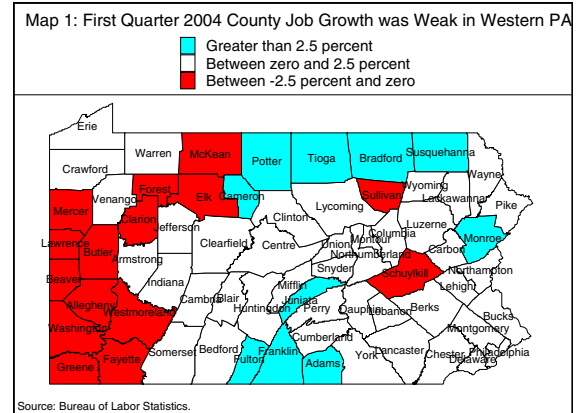
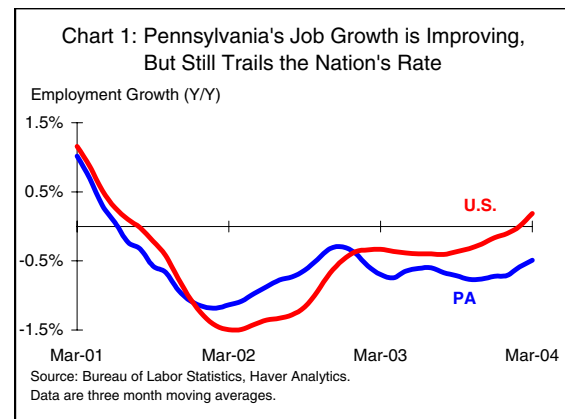
FDIC State Profile

Summer 2004

Pennsylvania

Pennsylvania's job growth continued to lag the nation through March 2004. Manufacturing remains the state's weakest sector as job losses are still widespread.

- Pennsylvania's job growth rate was negative through March 2004, but the rate of loss has eased (See Chart 1). Overall negative job growth belies job growth in every metropolitan statistical area (MSA) in the state, except Pittsburgh, Sharon, and Scranton. These three areas accounted for almost a quarter of the state's manufacturing job losses.
- County employment growth patterns in Pennsylvania reveal weakness in the western part of the state (See Map 1). Many of the counties still shedding jobs are more highly concentrated in manufacturing employment than the rest of the state. These counties also tend to have a greater concentration of government employment, which is shrinking statewide. Pittsburgh, which also has experienced weak employment trends, is more concentrated in information and professional and business services, two other relatively weak sectors.
- Home price growth in most Pennsylvania cities was slower than in the nation in first quarter 2004. Only the rates of home price appreciation in Philadelphia and Allentown were slightly higher than the national rate of 7.71 percent. Lower home price appreciation in general has limited the amount of equity available to homeowners and may, in part, limit the role of the consumer in the state's economic recovery.
- Office market conditions in downtown Pittsburgh and Philadelphia improved slightly in first quarter 2004 (See Chart 2). Downtown Philadelphia's vacancy rate declined, indicative of an improving employment picture.
- Weak office employment growth contributed to a relatively high downtown Pittsburgh vacancy rate. A \$400 per year downtown parking tax, enacted to help alleviate the city's budget deficit, took effect in 2003. Additionally, continued budgetary uncertainty may have a negative effect on office market conditions. Banks headquartered in Pittsburgh reported a higher CRE loan delinquency ratio than the statewide average; however, their ratio of CRE loans to capital remained modest.



State Profile

Credit quality among Pennsylvania's FDIC-insured institutions improved during the past year.

- After increasing following the most recent recession, the median loan delinquency ratio reported by FDIC-insured institutions headquartered in Pennsylvania declined in 2003 and first quarter 2004. The median past-due loan ratio hit a multi-year low of 1.51 percent in first quarter 2004, below the national ratio of 1.75 percent.
- However, credit quality in western Pennsylvania is less favorable than that in the rest of the state (See Chart 3).¹ Generally softer employment trends in western Pennsylvania, the manufacturing-dependent part of the state, may contribute to weaker credit quality trends.

Net interest margins may rise with a steeper yield curve, but benefit for many of the state's banks may be modest.

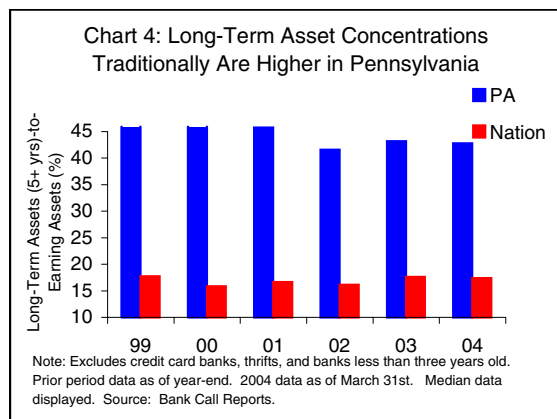
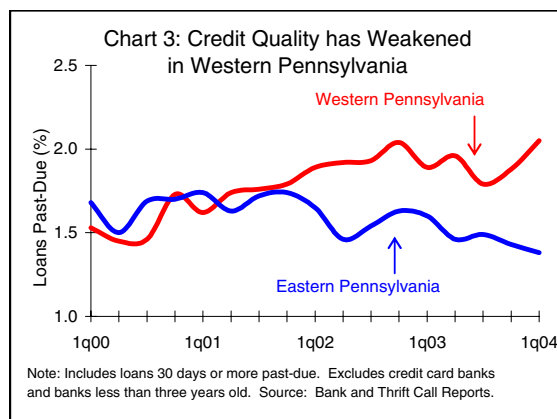
- The state's insured institutions reported a lower median net interest margin in first quarter 2004 compared with one year ago, as the decline in asset yields outpaced reduction in funding costs.
- Margins may widen following significant steepening in the yield curve that occurred in mid-2004, owing to an increase in long-term interest rates.
- However, a large share of Pennsylvania's banks focus on residential mortgage lending, which may benefit less from higher interest rates because residential lenders typically have a larger share of assets locked in at long-term rates than do other banks.
- The median ratio of long-term assets-to-average earning assets for Pennsylvania banks was well above the nation's due in large part to a high concentration of residential lenders (See Chart 4).
- Insured institutions with high concentrations of long-term assets may face margin compression, asset depreciation, and extension in asset duration if interest rates continue to rise, thereby heightening the importance of proper interest rate risk management practices.
- In addition, higher long-term interest rates likely will temper demand for residential mortgages, limiting some residential mortgage lenders' ability to increase asset yields.

Rising interest rates may contribute to higher funding costs.

- Pennsylvania institutions reported their lowest median cost of funds on record at 1.90 percent in first quarter

2004.² Funding costs generally track short-term interest rates, which increased in mid-2004.

- Depending on the degree of sensitivity of bank deposit rates to increases in market interest rates, funding costs likely will bounce off record lows in coming quarters.



¹"Western Pennsylvania" is defined in this article as the metropolitan statistical areas (MSAs) of Altoona, Erie, Harrisburg, Johnstown, Pittsburgh, Sharon, State College, Williamsport, and York, and counties surrounding these MSAs. "Eastern Pennsylvania" is defined as the MSAs of Allentown, Lancaster, Philadelphia, Reading, and Scranton, and surrounding counties.

²Data available since March 1984.

Pennsylvania at a Glance

General Information	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Institutions (#)	267	278	288	301	312
Total Assets (in thousands)	308,677,930	291,320,870	267,424,416	259,781,231	267,537,474
New Institutions (# < 3 years)	8	8	16	19	18
New Institutions (# < 9 years)	28	29	30	28	26
Capital	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Tier 1 Leverage (median)	9.14	9.00	9.10	9.43	9.46
Asset Quality	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Past-Due and Nonaccrual (median %)	1.45%	1.70%	1.65%	1.63%	1.51%
Past-Due and Nonaccrual >= 5%	20	29	26	22	18
ALLL/Total Loans (median %)	1.13%	1.14%	1.09%	1.07%	1.03%
ALLL/Noncurrent Loans (median multiple)	1.57	1.44	1.50	1.52	1.50
Net Loan Losses/Loans (aggregate)	0.36%	0.29%	0.39%	0.38%	0.20%
Earnings	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Unprofitable Institutions (#)	16	13	22	28	22
Percent Unprofitable	5.99%	4.68%	7.64%	9.30%	7.05%
Return on Assets (median %)	0.84	0.93	0.94	0.84	0.91
25th Percentile	0.56	0.62	0.56	0.54	0.62
Net Interest Margin (median %)	3.41%	3.46%	3.59%	3.54%	3.69%
Yield on Earning Assets (median)	5.28%	5.81%	6.62%	7.58%	7.52%
Cost of Funding Earning Assets (median)	1.89%	2.39%	3.03%	4.13%	3.86%
Provisions to Avg. Assets (median)	0.07%	0.07%	0.09%	0.08%	0.09%
Noninterest Income to Avg. Assets (median)	0.47%	0.47%	0.44%	0.42%	0.42%
Overhead to Avg. Assets (median)	2.50%	2.48%	2.50%	2.58%	2.56%
Liquidity/Sensitivity	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Loans to Deposits (median %)	77.06%	75.48%	78.95%	81.71%	82.27%
Loans to Assets (median %)	58.49%	60.03%	63.47%	63.80%	65.50%
Brokered Deposits (# of Institutions)	43	39	33	29	31
Bro. Deps./Assets (median for above inst.)	1.77%	1.30%	2.45%	1.78%	2.81%
Noncore Funding to Assets (median)	18.19%	17.56%	16.95%	16.54%	16.66%
Core Funding to Assets (median)	69.54%	70.32%	71.12%	70.78%	71.74%
Bank Class	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
State Nonmember	66	62	67	64	67
National	75	80	80	88	94
State Member	27	29	29	32	33
S&L	27	32	34	35	37
Savings Bank	21	25	27	32	32
Stock and Mutual SB	51	50	51	50	49
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
Philadelphia PA-NJ PMSA	71	61,599,348	26.59%	19.96%	
No MSA	66	31,429,805	24.72%	10.18%	
Pittsburgh PA	42	119,894,147	15.73%	38.84%	
Harrisburg-Lebanon-Carlisle PA	19	11,924,655	7.12%	3.86%	
Scranton--Wilkes-Barre--Hazleton PA	14	5,215,343	5.24%	1.69%	
Allentown-Bethlehem-Easton PA-NJ	13	6,272,435	4.87%	2.03%	
Lancaster PA	8	9,874,073	3.00%	3.20%	
Johnstown PA	8	2,270,423	3.00%	0.74%	
Reading City PA	7	51,528,158	2.62%	16.69%	
York PA	4	1,168,285	1.50%	0.38%	
Williamsport PA	4	1,124,124	1.50%	0.36%	
Altoona PA	4	631,957	1.50%	0.20%	
Sharon PA	3	4,855,368	1.12%	1.57%	